

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



CALIFORNIA WINEGRAPE INSPECTION ADVISORY BOARD

AUDIT REPORT #09-083

CALIFORNIA WINEGRAPE INSPECTION
ADVISORY BOARD

AUDIT REPORT

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AUDIT REPORT NUMBER

09-083

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Mr. Robert Maxie, Branch Chief
Marketing Services
California Department of Food and Agriculture
1220 N Street
Sacramento, California 95814

The California Department of Food and Agriculture (CDFA), Division of Marketing Services, Marketing Branch, requested the Audit Office to perform a limited scope fiscal and compliance audit of the California Winegrape Inspection Advisory Board, which is managed by Monfort Management Services, Inc. (Monfort Management).

The objective of this audit was to determine whether certain activities and expenditures incurred by the Marketing Board comply with the law and are within the Board's authority. In addition, our office was to identify any internal control weaknesses we noted upon examination of the Marketing Board's financial records.

The audit scope was limited by the Marketing Branch as it related to certain expenditures. Most notably, the Marketing Branch has allowed the State's marketing orders to implement a travel policy that can be applied retroactively to the audit period. This travel policy allows for the State's marketing orders to incur lodging and per diem expenses up to three times the current State rate. Therefore, our office has been instructed to only report amounts that exceeded this threshold.

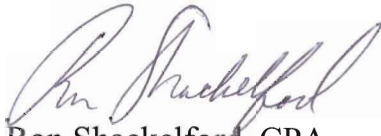
Furthermore, our audit scope was limited to May 1, 2006 through April 30, 2009. Although the scope was limited to these years, our office expanded the scope to include information that covered other years if it was readily accessible and/or may have assisted us in understanding a particular issue.

To accomplish the overall audit objectives, our audit methodology consisted of, but was not all inclusive of, reviewing the Marketing Board's:

- Compliance with various rules and regulations
- Employee and Policy Manuals
- Internal controls
- General ledger detail and various financial related documents
- Board and Committee minutes
- Expenses and supporting documentation, including credit card statements and corresponding receipts for each charge
- Contracts
- Research grants
- Payroll documents

We conducted our audit in accordance with Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States.

This audit report is intended solely for the information and use of the management of the CDFA and the California Winegrape Inspection Advisory Board and should not be used for any other purpose.

A handwritten signature in dark ink, appearing to read "Ron Shackelford", is positioned above the printed name.

Ron Shackelford, CPA
Chief, Audit Office
(916) 651-8774

GENERAL BACKGROUND

Monfort Management Services, Inc. (Monfort Management) manages the following 11 Marketing Boards:

1. California Alfalfa Seed Advisory Board
2. California Cantaloupe Advisory Board
3. California Celery Research Advisory Board
4. California Citrus Nursery Board
5. California Cling Peach Board
6. California Dry Bean Advisory Board
7. California Fresh Carrot Advisory Board
8. California Melon Research Board
9. California Pepper Commission
10. California Potato Research Advisory Board
11. California Winegrape Inspection Advisory Board

On an annual basis, each entity contracts separately with Monfort Management for management and financial services. The services include, but are not limited to bookkeeping, working with industry and researchers, etc. These contracts are approved separately by each Marketing Boards' Board of Directors. All 11 Boards are separate legal entities from one other. Furthermore, each entity pays for an independent financial statement audit of its operations. According to Monfort Management, one bank account (TABCOMP Marketing Order Fund) is used to manage all of the entities' funds. Therefore, revenues are deposited to this account and expenses are paid with this account. Monfort Management tracks each entity's revenues and expenses separately to ensure a proper accounting of the entity's funds. Additionally, each entity has a different fiscal year-end. Therefore, with our established audit scope of May 1, 2006 through April 30, 2009, our office reviewed portions of fiscal years equating to three years of documentation rather than three whole fiscal years.

EXECUTIVE SUMMARY

The California Department of Food and Agriculture (CDFA), Division of Marketing Services, Marketing Branch, requested the CDFA Audit Office to perform a limited scope fiscal and compliance audit of the California Winegrape Inspection Advisory Board to determine whether certain activities and expenditures incurred comply with the law and are within the Board's authority. In order to accomplish this, our primary focus was the Marketing Board's expenses and compliance with various rules and regulations. The following administrative weaknesses were noted:

- The California Winegrape Inspection Advisory Board (Winegrape) used credit cards to pay for operations. A review of these expenses paid with Winegrape credit cards revealed a lack of supporting documentation in several instances. Without supporting documentation, our office cannot determine whether the related charges were reasonable, appropriate, or business related.
- The Marketing Board does not always have proper internal controls over its research grants. The funding paid to researchers is based on an invoice, and the final payment is paid when the final research report is completed. Our audit sample indicates the Marketing Board did not require grantees to provide progress reports or a final accounting over the grant money awarded to them. Timelier oversight would help ensure that all amounts paid for research were used for their intended purposes.
- The Marketing Board does not have written documentation to demonstrate that competitive bidding occurred or to justify the reason for not seeking competitive bids for service contracts.
- Our office was not provided with any written documentation or policy relating to the methodology used in determining the various allocation methods, indicating when each method shall be used for the shared cost. It appears that depending on the type of expense and the number of entities that benefitted from the expense, a different allocation method was used.

KEY RECOMMENDATIONS

1. *Winegrape should ensure all charges incurred and expenses paid with corporate credit cards are supported with an itemized receipt or invoice. In the instances where a receipt does not accompany the related credit card charge, individual card holders should be required to make reasonable attempts to obtain the necessary support within a timely basis.*
2. *The Marketing Board should ensure that Monfort Management improves its internal controls over grant awards by requiring grantees to provide additional financial information, such as progress reports and a final accounting of expenses applied against the grant. The purpose of these reports is to improve monitoring of grant awards and provide more transparency over actual expenditures billed by researchers to the grant contract.*
3. *The Marketing Board should ensure that Monfort Management maintains documentation to demonstrate a competitive bidding effort occurred prior to awarding its service contracts. Furthermore, written justification should be maintained to demonstrate due diligence as to the reason for not competitively bidding out service contracts in the instances where a highly skilled contractor or contractor with specific skill set is contracted with.*
4. *Monfort Management should develop written policies that document the methodology to be used in allocating shared costs among the entities it manages.*

REPORTABLE FINDINGS

SUPPORT FOR CREDIT CARD EXPENSES

Our office noted that all charges incurred on California Winegrape Inspection Advisory Board (Winegrape) credit cards were not always supported by an accompanying receipt. Our office noted that initially the corporate credit card was in the name of Winegrape and was later transferred to Fiscal Managers, Inc. (Fiscal Managers) during fiscal year 2006/2007. Winegrape contracts with Fiscal Managers for Inspection Labor Services at \$63,000 annually. Fiscal Managers exclusively contracts with Winegrape. In addition to the annual fee, the contract states that Winegrape pays for Fiscal Manager's operation costs that totaled \$1,221,000 in fiscal year 2006/2007 and \$1,095,000 in fiscal year 2007/2008. During these fiscal years, the amounts were transferred to the Fiscal Managers bank account and Fiscal Managers paid the expenses it incurred. At the end of the year, any remaining monies were returned to Winegrape. In fiscal year 2008/2009, it appears that the operation costs were paid by Winegrape out of its account rather than transferring money to Fiscal Managers. Since Fiscal Managers only contracts with Winegrape and all cost incurred by Fiscal Managers are paid by Winegrape, our office also reviewed all credit card transactions for the credit cards held in the name of Fiscal Managers.

Depending on the fiscal year, our office noted Winegrape or Fiscal Managers provided a separate corporate credit card to Fiscal Manager's program supervisor, district managers, and assistant district managers. During our audit period, our office reviewed 8 separate corporate credit card accounts. For the three-year audit period, our office noted 167 instances totaling \$23,356, or approximately 16% of the \$148,727 in expenses charged to the credit cards, which were not adequately supported with any receipts. *Table 1* further indicates the categories of the unsupported credit card expenses. The expenses are categorized based on merchant name.

Table 1

CDFA Audit of the California Winegrape Inspection Advisory Board Summary of Credit Card Charges without Supporting Documentation For the period of May 2006 - April 2009								
Fiscal Year	Gas & Auto Expense	Food & Beverage	Travel & Lodging	Communication	Inspection Supplies	Office-Related Supplies	Misc / Total	Total
08/09	\$ 5,131	\$ -	\$ 956	\$ 481	\$ 87	\$ 70	\$ -	\$ 6,725
07/08	5,289	645	3,128	1,255	3,117	218	750	14,402
06/07	165	-	335	-	336	1,077	316	2,229
Total	\$10,585	\$ 645	\$4,419	\$ 1,736	\$ 3,540	\$ 1,365	\$1,066	\$23,356

Among the highest unsupported expenses were \$2,175 at a hotel in Pismo Beach, California, which was noted as paid for lodging and meeting rooms for an end of season meeting and \$1,352 for rental cars. Additionally, 67%, or \$7,118 of the \$10,585 unsupported gas and auto expense was for monthly vehicle rentals from a rental car company. Without adequate supporting documentation, our office cannot determine whether the charges noted in *Table 1* were reasonable, appropriate, or business related. Additionally, our office was unable to determine whether these expenses were thoroughly reviewed for appropriateness prior to payment.

Recommendation

1. *Winegrape should ensure all charges incurred and expenses paid with corporate credit cards are supported with an itemized receipt or invoice. In the instances where a receipt does not accompany the related credit card charge, individual card holders should be required to make reasonable attempts to obtain the necessary support within a timely basis.*

INTERNAL CONTROL WEAKNESSES IN RESEARCH GRANT CONTRACTS

Winegrape awards research grants to various organizations for research relating to its particular crop. Based on the audited financial statements provided to our office, the Marketing Board awarded amounts up to \$85,000. Based on our analysis and discussion with Monfort Management, our office noted that a detailed final accounting of the grant money awarded to the organizations was not required prior to issuance of the final payment of the grant. Instead, the researchers provided an invoice to the Marketing Board stating only the balance due to the researchers. Our office noted these invoices do not have sufficient detail as to how the grant money was spent. The invoices only indicated the award amount and the balance due from the Marketing Board.

The Marketing Board should hold the grantees more accountable for the funds awarded, to ensure the funds are used solely for the intended purpose. Although a budget is included in the grant contract, the Marketing Board should not rely only on the budget presented to account for the final expenses, since the actual expenditures incurred could vary significantly from the budgeted amount. Our office recommends the Marketing Board require grantees to provide progress reports and a final accounting for the grant funds awarded to them. Progress reports are useful analytical tools that provide supplementary information regarding the status of the grant projects and could possibly identify any potential concerns or questions the Marketing Board may have. In addition, a final accounting of actual expenses would allow the Marketing Board to determine whether use of the grant award was for the intended purpose and whether any grant money remained unspent. Ultimately, these reports will improve internal controls by providing more transparency over expenditures incurred by the researchers.

Recommendation

2. *The Marketing Board should ensure that Monfort Management improves its internal controls over grant awards by requiring grantees to provide additional financial information, such as progress reports and a final accounting of expenses applied against*

the grant. The purpose of these reports is to improve monitoring of grant awards and provide more transparency over actual expenditures billed by researchers to the grant contract.

INTERNAL CONTROL WEAKNESSES IN CONTRACTS

Upon reviewing service contracts for the audit period, our office noted that Winegrape did not always have documentation demonstrating competitive bidding occurred for some of the service contracts. For instance, bids were not sought for administrative services for inspection, which was not to exceed \$63,000 during the 2008/2009 fiscal year. According to Monfort Management, upon our questioning during fieldwork, these contracts did not go out to bid because of the specialized services the individual or company could provide. The Audit Office is aware that many of these services sought were from highly skilled professionals who have a specific expertise within the industry.

Recommendation

- 3. The Marketing Board should ensure that Monfort Management maintains documentation to demonstrate a competitive bidding effort occurred prior to awarding its service contracts. Furthermore, written justification should be maintained to demonstrate due diligence as to the reason for not competitively bidding out service contracts in the instances where a highly skilled contractor or contractor with specific skill set is contracted with.*


COST ALLOCATION

Our office was not provided with any written documentation or policy by Monfort Management relating to the methodology used in determining the various cost allocation methods for shared costs. It appears that depending on the type of expense and the number of entities that benefitted from the expense, a different allocation method was used. As noted earlier, Monfort Management has an annual contract with each entity for management and financial services. According to the contracts, in addition to the monthly service fee, Monfort Management will invoice the entity for other expenses, such as copies, faxes, etc. Our office noted these expenses were either invoiced to the entity for the entire amount when the cost was incurred by the specific entity or for a portion of the cost when other entities also incurred the cost. Our office also noted that Monfort Management used various methods to determine the allocation percentage. There were instances when the cost was allocated equally among the entities, or based on the average percentage of each entity's funds of the total funds held in the TABCOMP bank account. There were other methods used, for which our office could not determine the basis of measurement. The methods used are determined at the discretion of Monfort Management based on the type of expense. Without established policies or written documentation specifying the methodology to be used in allocating costs, inconsistencies in billing may occur since there are varying methods from which to choose when allocating shared costs to different entities.

Recommendation

4. *Monfort Management should develop written policies that document the methodology to be used in allocating shared costs among the entities it manages.*

CALIFORNIA WINEGRAPE INSPECTION ADVISORY BOARD'S RESPONSE



California Winegrape Inspection Advisory Board

December 15, 2009

Ron Shackelford, CPA
Chief, CDFA Audit Office
1220 N Street, Room 344
Sacramento, CA 95814

Dear Ron,

Please accept my apologies for the tardiness of this response, but as you know, you have given our firm several recommendations to the various boards and we felt we needed to discuss some of the responses with the Marketing Branch, and their busy schedule kept us from responding as soon as we might have preferred. Following are the responses to your recommendations:

Response to Recommendation regarding Cost Allocation:

When costs are incurred that should be divided among the Boards/Commission managed by Monfort Management Services, there are several scenarios that can affect the distribution of the expenses. In most cases, when the expense affects all of the Boards/Commission, a formula has been developed to divide the expenses as proportionately as possible, based on size of budget, size of Board and likely usefulness to the Boards. That formula is as follows:

**Alfalfa Seed, Pepper, Celery, Melon, Potato and Cantaloupe: 5% each; Citrus Nursery: 10%
Cling Peach, Dry Bean, Fresh Carrot, Winegrape Inspection: 15% each**

There are other costs that are incurred that logically should be borne **equally** by all of the Boards and/or Commission. That determination will be made on a case by case basis by general agreement of the Board managers.

At other times costs are incurred that don't affect all of the Boards/Commission, and in those cases, a determination will be made by the managers of the Boards/Commission involved to divide the costs rationally, based on the value of the costs to each Board/Commission affected.

Response to Recommendation regarding Competitive Bidding and Related Documentation

Monfort Management will henceforth obtain competitive bids for work involving subcontracts for the Board when required by the need for new work to be accomplished. However, in most cases, the Board has an established relationship with the contractors involved, and is satisfied with their work. Inviting competitive bids

with no intention of an impending change would be an unnecessary and futile process, and would give those bidding a false impression that they had been given an opportunity when none exists. MMS will document the reasons no bids have been received when the Board is satisfied with the current contractor.

Response to Recommendation regarding Receipts and use of Credit Cards

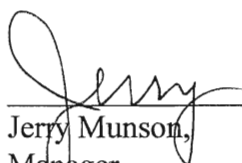
Monfort Management will henceforth not pay any expense claims or credit card statements without first obtaining explanatory receipts for expenses incurred.

Response to Recommendation regarding obtaining Financial Reports on UC Contracts

Because requiring the University of California to provide a financial accounting on every research contract would eventually affect every Advisory Board, Council and Commission operating under the supervision of the Marketing Branch, we have discussed this recommendation with other Advisory Boards and the Marketing Branch and have learned that the issue is to be put before the California Commodity Committee (CCC), a group that represents the majority of the advisory boards in their relationship with the University. Since the Marketing Branch also participates in the CCC, we intend to await the outcome of that investigation, and will abide by their recommendation.

Since you asked for a timetable for these recommendations to be implemented, we can say that all except for the last one will be immediate, while we'll have to wait until CCC develops a policy to follow that recommendation. We thank you for the professional way in which your staff conducted the audits, and look forward to receiving your final report.

Respectfully submitted,


Jerry Munson,
Manager
Chester Murphy,
Chairman

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the California Winegrape Inspection Advisory Board for its review and response. We have reviewed the response. To provide clarity and perspective, we are including additional comments to the Marketing Board's response to our audit report section Internal Control Weaknesses in Research Grant Contracts.

The Marketing Board stated in its response that it will abide by the recommendation and subsequent policy of the California Commodity Committee. However, the recommendation and policy determined by the Committee may or may not be sufficient.

Our recommendation strengthens the internal control for monitoring research grant contracts of the Marketing Board. The Marketing Board has a duty to ensure that all its money is properly spent. The Board should monitor the progress of work to ensure that services are performed according to the quality, quantity, objectives, timeframes, and manner specified in the contract; e.g., review progress reports and interim products, if applicable. Also, the progress reports may have valuable information regarding equipment purchased to conduct the research. Knowing if a purchase occurred and who owns title at the end of a contract would be one example of why a progress report is beneficial.

It should be noted that these reports can be easily obtained through the University's accounting department. Progress reports are standard practice for any University receiving State monies and the review of these reports is a basic internal control that should be implemented by the Board.

DISPOSITION OF AUDIT RESULTS

The findings in this report are based on fieldwork my staff performed June 8-19, 2009. My staff met with management on June 19, 2009 for a preliminary exit to discuss the findings and recommendations, as well as other issues.

This report is intended for the CDFA and the Marketing Board for their review and action if necessary. However, this report is public document and its distribution is not restricted.

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	Chairman, California Winegrape Inspection Advisory Board
1	Director, CDFA Marketing Services Division
1	Branch Chief, CDFA Marketing Branch
1	Chief Counsel, CDFA Legal Office
2	Chief, Audit Office